

MARSHALLTOWN WATER WORKS

**Independent Auditors' Reports
Financial Statements and
Supplementary Information
Schedule of Findings
June 30, 2007 and 2006**

MARSHALLTOWN WATER WORKS

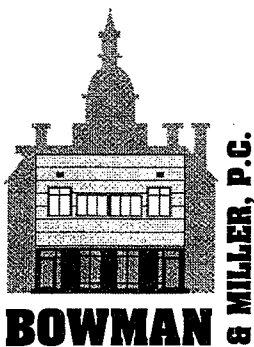
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MARSHALLTOWN WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2012
Jerry Young	Trustee	May 1, 2011
Kenneth Vinson	Trustee	May 1, 2010
Leon Lamer	CEO/General Manager	Indefinite
Steve Sincox	Director of Engineering	Indefinite
Tim Wilson	Director of Water Products	Indefinite
Pay Willey	Director of Finance	Indefinite



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Independent Auditors' Report

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

We have audited the accompanying balance sheets of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Marshalltown Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the funds of the Marshalltown Water Works and do not present the financial position of the City of Marshalltown, Iowa, as of June 30, 2007 and 2006, and the changes in its financial position and cash flows where applicable and its indebtedness, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2007, on our consideration of the Marshalltown Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in pages 19 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 18, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Marshalltown Water Works' Annual Financial Report presents our discussion of the Water Works' financial performance during the financial year ending June 30, 2007.

Use this discussion in conjunction with the financial report to better understand the Water Works' financial condition, which follows this section.

FINANCIAL HIGHLIGHT AND NOTEWORTHY ISSUES

- ◆ The Water Works began a research project, with the permission of the Iowa Department of Natural Resources, to evaluate the use of sodium chlorite to control nitrification within the distribution system. The research results were extremely good, and we are designing the addition of this chemical to our system. The Marshalltown Water Works will be the only utility in Iowa to use this system, and we are now sharing our information with others within the water industry. The Water Works completed the facility to handle this chemical and it became part of our permeate treatment process.
- ◆ The Marshalltown Water Works is maintaining a Capital Reserve Account to finance a new one-million gallon water tower to be constructed in the 2009 fiscal year using the cash release from the bond fund and the Capital Reserve Account.
- ◆ With the announcement of Maytag closing all facilities in Newton, Central Iowa Rural Water contracted for more water from Newton and decreased the amount taken from us. This will of course affect our bottom line but this contract will only last until 2014.
- ◆ With the announcement of Alliant Energy constructing a new electrical generating facility in Marshalltown and that they will purchase all the water from us, this will require some major expansion of our facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Water Works' financial activities.

These financial statements consist of Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

Notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the financial statements.

Supplemental information provides detailed information about the balance sheet and expense accounts.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The Balance Sheet includes all of the Water Works' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The Balance Sheet reports the Water Works' net assets and how they have changed. Net assets (the difference between the Water Works' assets and liabilities) is one way to measure the Water Works' financial health, or position. Over time, increases and decreases in the Water works' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The Water Works is considered a business type activity because it charges fees to customers to cover the costs of all services it provides.

FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE

- ◆ The Water Works' total assets remained consistent over the past twelve months. Cash balances increased due to the net income shown for the year.
- ◆ Operating revenues for the Water Works decreased \$109,759 from 2006 and operating expenses decreased \$85,602 leaving an operating income of \$142,468. After all non-operating income and expenses were recorded; the Water Works reported a net income of \$213,935 for the year ending June 30, 2007.
- ◆ Due to weather conditions, the change in CIWA purchases and the City increasing sewer rates the Water Works' interest income and revenues were \$2,937,224.00, and as a result, operating revenue did not meet the projected three percent increase over the fiscal year 2007. Expenses for the fiscal year 2007 were at ninety two percent of budgeted numbers making them below the approved budget as approved by the Board of Trustees in March, 2006.

DEBT ADMINISTRATION

- ◆ During the fiscal year 2007, the Marshalltown Water Works made payments against bonded indebtedness of \$345,000 reducing bond indebtedness to \$365,000. This bond is a ten-year bond and the last payment on this bond is due June, 2008. The Water Works also maintains an improvement fund of \$200,000 as required by the bond resolution, and it continues to maintain a \$350,000 reserve fund also required by the bond resolution. These two fund amounts must be held in reserve in case of default on the bonds.

CONDITIONS OF THE WATER WORKS INFRASTRUCTURE

- ◆ The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of 2007 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality and as those complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ During 2007, the Water Works relocated the 12" water main on 233rd St. to make room for the grading and paving of Highland Acre Rd. We also operated every valve 12" and larger to make sure they would all work.
- ◆ The Board has hired a consultant to review the location and need for a new tower on the south side of town, as well as the infrastructure for servicing the addition of a new power plant.
- ◆ The Board has hired a consultant to review and make recommendations on the plant expansion and well field expansion to meet the needs of a new power plant.
- ◆ The Waterworks will begin negotiating a contract with Alliant Energy for water service to their new facility in the spring of 2008.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- ◆ On July 1, 2004 the Water Works board of Trustees put into place a comprehensive cost of service study, which calls for a three-year rate increase to all customers, the amount depending on the type of customer. Because of the economics of the system, the Board chose to adopt the second year of the rate structure as an accumulative rate and make that effective on July 1, 2004. The income projections from that increase should start to build back up, so that we would end up over a three-year period with approximately \$700,000 through rate increases for capital projects. It would build back into those rates an additional \$500,000 as a reserve fund for operational procedures that presently has been depleted down to just \$100,000.
- ◆ The Water Works will be constructing a new chemical application at the treatment plant.

CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT

- ◆ This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report, you may contact either Leon Lamer, or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

MARSHALLTOWN WATER WORKS

Balance Sheets June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash	\$ 572,248	479,789	92,459
Accounts receivable	267,552	213,674	53,878
Other receivables	25,193	42,218	(17,025)
Prepaid expenses	79,309	65,909	13,400
Restricted assets:			
Sinking fund	31,633	31,102	531
Total current assets	<u>975,935</u>	<u>832,692</u>	<u>143,243</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	351,970	250,902	101,068
Restricted assets:			
Improvement fund	200,000	200,000	-
Reserve fund	350,000	350,000	-
Total investments	<u>1,201,970</u>	<u>1,100,902</u>	<u>101,068</u>
Capital assets:			
Capital assets	21,520,066	21,340,149	179,917
Accumulated depreciation	(10,016,150)	(9,430,703)	(585,447)
Net capital assets	<u>11,503,916</u>	<u>11,909,446</u>	<u>(405,530)</u>
Other assets:			
Bond origination fee	<u>1,278</u>	<u>2,845</u>	<u>(1,567)</u>
 Total assets	 \$ <u>13,683,099</u>	 <u>13,845,885</u>	 <u>(162,786)</u>

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 71,261	75,796	(4,535)
Due to other governments:			
Landfill fees	11,345	12,167	(822)
Sewer fees	191,529	199,206	(7,677)
Storm sewer fees	24,612	26,220	(1,608)
Sewer interest	216	212	4
Customer deposits - sewer	62,005	63,605	(1,600)
Customer deposits - water	45,120	46,690	(1,570)
Accrued liabilities	87,069	100,982	(13,913)
Current portion of long-term debt	365,000	345,000	20,000
Total current liabilities	<u>858,157</u>	<u>869,878</u>	<u>(11,721)</u>
Long-term debt:			
Revenue bonds	365,000	710,000	(345,000)
Less: current portion	<u>(365,000)</u>	<u>(345,000)</u>	<u>(20,000)</u>
Total long-term liabilities	<u>-</u>	<u>365,000</u>	<u>(365,000)</u>
Total liabilities	<u>858,157</u>	<u>1,234,878</u>	<u>(376,721)</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	11,138,916	11,199,446	(60,530)
Restricted for revenue note retirement	216,633	236,102	(19,469)
Unrestricted:			
Board designated for capital improvements	351,970	250,902	101,068
Undesignated	<u>1,117,423</u>	<u>924,557</u>	<u>192,866</u>
Total net assets	<u>12,824,942</u>	<u>12,611,007</u>	<u>213,935</u>
 Total liabilities and net assets	 \$ <u>13,683,099</u>	 <u>13,845,885</u>	 <u>(162,786)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,230,285	1,250,853	(20,568)
Multi-family	170,427	161,344	9,083
Commercial	352,292	358,644	(6,352)
Irrigation	40,695	37,206	3,489
Industrial	558,657	510,082	48,575
Wholesale	467,707	610,782	(143,075)
Non-metered	1,136	905	231
City contract services	63,657	61,999	1,658
Penalties	26,546	26,084	462
Customer service	21,656	23,913	(2,257)
Testing laboratory	4,166	5,171	(1,005)
Total operating revenues	<u>2,937,224</u>	<u>3,046,983</u>	<u>(109,759)</u>
Operating expenses:			
Salaries and wages	849,618	837,717	11,901
Payroll taxes and benefits	227,419	225,621	1,798
Utilities	276,108	271,345	4,763
Fuels	17,518	15,867	1,651
Supplies	72,124	78,411	(6,287)
Repairs and maintenance	51,451	107,387	(55,936)
Chemicals	575,096	601,863	(26,767)
Contract services	11,468	15,733	(4,265)
Insurance	77,125	71,685	5,440
Professional fees	18,926	9,469	9,457
Other operating expense	32,580	39,246	(6,666)
Bad debt expense	(124)	(48)	(76)
Depreciation	585,447	606,062	(20,615)
Total operating expenses	<u>2,794,756</u>	<u>2,880,358</u>	<u>(85,602)</u>
Operating income	<u>142,468</u>	<u>166,625</u>	<u>(24,157)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets (Continued) Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	91,701	73,339	18,362
Rentals	-	3,100	(3,100)
Timber sales	6,050	-	6,050
Miscellaneous income	10,694	16,809	(6,115)
Interest expense	(28,228)	(41,098)	12,870
Miscellaneous expense	(8,750)	(11,828)	3,078
Total non-operating revenues (expenses)	<u>71,467</u>	<u>40,322</u>	<u>31,145</u>
Change in net assets	213,935	206,947	6,988
Net assets, beginning	<u>12,611,007</u>	<u>12,404,060</u>	<u>206,947</u>
Net assets, ending	<u>\$ 12,824,942</u>	<u>12,611,007</u>	<u>213,935</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,900,371	3,037,529
Cash payments to suppliers for goods and services	(1,150,976)	(1,208,502)
Cash payments to employees and professional contractors for services	(1,102,418)	(1,112,707)
Net cash provided (used) by operating activities	<u>646,977</u>	<u>716,320</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	1,050,000	1,050,000
Purchase of investments	(1,151,068)	(1,100,222)
Investment income	91,701	73,339
Receipt of rental income	-	3,100
Other operating revenues (expenses)	7,993	4,981
Net cash provided (used) in investing activities	<u>(1,374)</u>	<u>31,198</u>
Cash flows from capital and related financing activities:		
Payment on revenue bonds	(345,000)	(330,000)
Interest paid on revenue bonds	(28,228)	(41,098)
Acquisition of capital assets	(179,916)	(459,990)
Net cash provided (used) by financing activities	<u>(553,144)</u>	<u>(831,088)</u>
Net change in cash and cash equivalents	92,459	(83,570)
Cash and cash equivalents at beginning of year	<u>479,789</u>	<u>563,359</u>
Cash and cash equivalents at end of year	<u>\$ 572,248</u>	<u>479,789</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 142,468	166,625
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	585,447	606,062
Bond origination fees	1,567	1,567

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued) Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
(Increase) decrease in assets:		
Accounts receivable	(53,878)	(19,671)
Other receivables	17,025	10,217
Prepaid expenses	(13,400)	(2,657)
Merchandise for resale	-	-
Sinking fund	(531)	(177)
Increase (decrease) in liabilities:		
Accounts payable	(4,535)	(1,068)
Payable to sewer fund	(7,677)	4,993
Payable to landfill fund	(822)	(470)
Payable to storm sewer fund	(1,608)	2,236
Customer deposits-sewer	(1,600)	(13,490)
Customer deposits-water	(1,570)	(4,305)
Sewer interest	4	94
Accrued liabilities	<u>(13,913)</u>	<u>(33,636)</u>
Net cash provided (used) by operating activities	<u>\$ 646,977</u>	<u>716,320</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements

June 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria. They account for operations that are financed and operated in a manner similar to a private business enterprise where the expenses (including depreciation) of providing water services to the City of Marshalltown on a continuing basis are financed through user charges.

The financial statements of the Water Works have been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

A. Accounts Receivable

Accounts receivable represent amounts billed for water uncollected at June 30, 2007 and 2006. Because of the Organization's policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded.

B. Capital Assets

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest costs are capitalized for the purchase or construction of property, plant and equipment. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Plants, Wells and Storage	10-40 years
Distribution Property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (Continued)

C. Budgets

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water Works considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

E. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

F. Bond Origination Fee

Bond origination fees are being amortized by the straight-line method over the life of the revenue bonds.

Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2007 and 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2007 and 2006.

Interest rate risk - The Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2007 and 2006

Note 2. Cash and Pooled Investments (Continued)

invested with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Water Works.

Note 3. Bonds Payable

Revenue bonds payable at June 30, 2007 and 2006 are \$710,000 and \$1,040,000, respectively. Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>
2008	4.00%	\$ <u>365,000</u>	<u>14,600</u>

The resolutions providing for the issuance of the revenue bonds included the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the enterprise activity.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) An amount equal to the maximum amount of principal and interest coming due on the bonds in any subsequent fiscal year shall be transferred to the water revenue debt service reserve fund. This shall be equal to 25% of the sinking fund requirements. This is used for debt service requirements whenever there is insufficient money available in the sinking fund.
- (d) Additional monthly cash transfers of \$10,000 to the improvement account shall be made until a minimum of \$200,000 is attained. This account pays principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget for capital improvements.

No interest was capitalized for 2007 and 2006.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2007 and 2006

Note 4. Pension and Retirement Benefits

The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust. The Water Works' payrolls covered by the Plan for the years ended June 30, 2007, 2006, and 2005 were \$442,044, \$443,801, and \$424,317, respectively, while total payrolls for 2007, 2006 and 2005 were \$836,727, \$828,304 and \$803,461, respectively.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2003. The Board of Trustees has the authority to amend the Plan at any time.

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of average monthly compensation multiplied by the number of years of consecutive service for the years ended 2007, 2006 and 2005. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service. The Plan also provides death and disability benefits.

The Plan is an actuarially funded system. The pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases. Significant actuarial assumptions used in the determination of the contribution and where applicable, in arriving at the benefit obligation, include an 8% investment return, 5% projected salary increases, retirement at age 65, and mortality based on the 1983 group annuity mortality table.

The pension benefit obligations as of April 1, 2007, 2006 and 2005 were as follows:

	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Vested:			
Active	\$ 301,148	297,430	272,899
Retired	<u>814,076</u>	<u>840,326</u>	<u>908,090</u>
Total vested	1,115,224	1,137,756	1,180,989
Non-vested	<u>745,021</u>	<u>701,664</u>	<u>602,793</u>
Total pension benefit obligations	\$ <u>1,860,245</u>	<u>1,839,420</u>	<u>1,783,782</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2007 and 2006

Note 4. Pension and Retirement Benefits (Continued)

	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Net assets available for benefits			
at market value	\$ 1,353,974	1,310,753	1,350,451
(cost 2007: \$1,273,423)			
(cost 2006: \$1,310,380)			
(cost 2005: \$1,371,039)			
Prepaid (unfunded) pension	\$ (597,006)	(528,667)	(433,331)

*The last actuarial valuation was performed on April 1, 2007. Estimated values have been calculated as of April 1, 2006 and 2005.

The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The frozen entry age actuarial cost method is used to determine annual plan costs. Contribution percentages for the years ended June 30, 2007 and June 30, 2006 for the employer portion was 6 3/4% and 3 1/4% for employees. For year ended June 30, 2005, employer portion was 5 1/4% and 2 1/4% for employees. Contributions paid by the Water Works for the years ended June 30, 2007, 2006 and 2005 totaled \$31,193, \$29,456 and \$24,399, respectively, and the contributions paid by employees totaled \$15,019, \$13,365 and \$9,547, respectively.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. While ten-year trend information is not available, three-year trend information, for the years ended April 1, is presented as follows:

	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Net assets available for benefits			
as percentages of the pension			
benefit obligations	73%	71%	76%
Prepaid (unfunded) pension benefit			
obligation as percentages of			
covered payroll	(112%)	(119%)	(103%)
Employer contributions (in accordance with actuarially determined requirements) as percentages of covered payroll	6.75%	6.75%	5.75%

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2007 and 2006

Note 4. Pension and Retirement Benefits (Continued)

	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Actuarial value of assets as a percentage of the actuarial accrued liability	69%	67%	71%
Ratio of the unfunded actuarial liability to annual covered payroll	132%	144%	130%
Total unfunded actuarial liability	\$ 597,006	640,705	548,893
Actuarial accrued liability	\$ 1,950,980	1,951,458	1,899,344
Actuarial value of plan assets	\$ 1,353,974	1,310,753	1,350,451

*The last actuarial valuation was performed on April 1, 2007. Estimated values have been calculated as April 1, 2006 and 2005.

For employees who choose not to participate in the Marshalltown Water Works' Supplemental Retirement and Pension Plan, the Water Works contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Water Works is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Water Works' contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$22,694, \$22,471, and \$22,974, respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded on the balance sheet based on current rates of pay.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)

June 30, 2007 and 2006

Note 6. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2007 and 2006.

Note 7. Capital Assets

Capital assets are stated at cost as follows at June 30:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,113,721	1,113,721
Plant and source of supply	8,884,217	8,731,138
Booster station	161,072	161,072
Distribution system and pipe	8,549,822	8,542,448
Meters	1,268,845	1,262,475
Machinery and equipment	417,250	404,642
Vehicles	231,923	231,923
Capital improvements	54,650	54,650
Capital improvements – buildings	448,576	448,576
Office equipment and furnishings	389,990	389,501
	<u>21,520,066</u>	<u>21,340,146</u>
Less accumulated depreciation	<u>(10,016,150)</u>	<u>(9,430,700)</u>
	\$ <u>11,503,916</u>	<u>11,909,446</u>

Depreciation expense was \$585,447 for the year ended June 30, 2007 and \$606,062 for the year ended June 30, 2006.

Note 8. Concentrations of Credit Risk

Concentrations of credit with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of all the receivables.

Supplementary Information

MARSHALLTOWN WATER WORKS

Balance Sheets Detail June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	268,424	161,767	106,657
Water deposits	45,120	46,690	(1,570)
Less: sinking fund allocation	(31,633)	(31,102)	(531)
	<u>282,541</u>	<u>177,985</u>	<u>104,556</u>
Cash held for city:			
Sewer deposit fund	62,221	63,817	(1,596)
Sewer cash	191,529	199,482	(7,953)
Storm sewer cash	24,612	26,338	(1,726)
Landfill cash	11,345	12,167	(822)
Total cash held for city	<u>289,707</u>	<u>301,804</u>	<u>(12,097)</u>
 Total cash	 \$ <u>572,248</u>	 <u>479,789</u>	 <u>92,459</u>
 Capital assets:			
Land	\$ 1,113,721	1,113,721	-
Plant and source of supply	8,884,217	8,731,141	153,076
Accumulated depreciation - plant	(5,522,591)	(5,154,523)	(368,068)
Distribution system and pipe	8,549,822	8,542,448	7,374
Accumulated depreciation - distribution	(2,545,118)	(2,456,251)	(88,867)
Booster station	161,072	161,072	-
Accumulated depreciation-booster station	(57,549)	(54,868)	(2,681)
Meters	1,268,845	1,262,475	6,370
Accumulated depreciation - meters	(839,139)	(801,448)	(37,691)
Machinery and equipment	417,250	404,642	12,608
Accumulated depreciation - machinery and equipment	(296,382)	(273,974)	(22,408)
Vehicles	231,923	231,923	-
Accumulated depreciation - vehicles	(187,524)	(168,346)	(19,178)
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	(18,005)	(15,538)	(2,467)
Capital improvements - buildings	448,576	448,576	-
Accumulated depreciation - buildings	(238,871)	(223,179)	(15,692)
Office equipment and furnishings	389,990	389,501	489
Accumulated depreciation - office equipment and furnishings	(310,971)	(282,576)	(28,395)
 Net capital assets	 \$ <u>11,503,916</u>	 <u>11,909,446</u>	 <u>(405,530)</u>

MARSHALLTOWN WATER WORKS

Balance Sheets Detail (Continued)

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 63,485	62,351	1,134
Prepaid computer maintenance	12,165	-	12,165
Prepaid billing supplies	<u>3,659</u>	<u>3,558</u>	<u>101</u>
Total prepaid expenses	<u>\$ 79,309</u>	<u>65,909</u>	<u>13,400</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 18,668	26,081	(7,412)
Interest receivable	5,956	5,620	336
Contract receivables	<u>569</u>	<u>10,517</u>	<u>(9,948)</u>
Total other receivables	<u>\$ 25,193</u>	<u>42,218</u>	<u>(17,024)</u>
Accrued liabilities:			
Accrued sales tax	\$ 7,352	6,633	719
Accrued F.I.C.A.	1,284	1,217	67
Accrued payroll	16,788	15,909	879
Accrued pension	627	573	54
Accrued vacation	68,162	76,224	(8,062)
Accrued retirement expense	454	426	28
Insurance deductible	<u>(7,598)</u>	<u>-</u>	<u>(7,598)</u>
Total accrued liabilities	<u>\$ 87,069</u>	<u>100,982</u>	<u>(13,913)</u>

MARSHALLTOWN WATER WORKS

Treatment Plant Expenses Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ <u>302,033</u>	<u>303,391</u>	<u>(1,358)</u>
Employee benefits:			
Health insurance	33,248	33,767	(519)
Pension	19,037	18,130	907
Social security	22,752	22,247	505
Life insurance	1,179	1,179	-
Mileage	344	-	344
Registration	1,390	870	520
Lodging	3,910	211	3,699
Safety clothing	1,048	381	667
Safety training	-	2,356	(2,356)
Medical	-	247	(247)
	<u>82,908</u>	<u>79,388</u>	<u>3,520</u>
Utilities:			
Electric	237,058	231,695	5,363
Gas	16,634	21,317	(4,683)
Internet	219	-	219
Telephone	3,094	2,867	227
	<u>257,005</u>	<u>255,879</u>	<u>1,126</u>
Depreciation:			
Plant depreciation	<u>368,069</u>	<u>379,232</u>	<u>(11,163)</u>
Fuels:			
Gas	1,248	1,172	76
Oil	22	19	3
Grease	-	100	(100)
Diesel fuel	970	1,519	(549)
	<u>2,240</u>	<u>2,810</u>	<u>(570)</u>
Supplies:			
Lab supplies	14,508	13,057	1,451
Plant supplies	1,578	1,088	490
Building supplies	142	972	(830)

MARSHALLTOWN WATER WORKS

Treatment Plant Expenses (Continued) Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Well supplies	352	503	(151)
Cleaning supplies	509	1,031	(522)
General supplies	434	2,107	(1,673)
Health and first aid	198	73	125
Safety equipment	119	1,007	(888)
Meter pit supplies	987	1,741	(754)
	<u>18,827</u>	<u>21,579</u>	<u>(2,752)</u>
Maintenance:			
Building maintenance	2,109	3,122	(1,013)
Machinery maintenance	9,247	12,177	(2,930)
Computer maintenance	842	627	215
Grounds maintenance	1,565	1,414	151
Well field maintenance	6,164	19,179	(13,015)
Heating and air maintenance	691	1,222	(531)
Safety equipment maintenance	-	285	(285)
Vehicle maintenance	548	2,873	(2,325)
Meter pit repair	426	486	(60)
	<u>21,592</u>	<u>41,385</u>	<u>(19,793)</u>
Chemicals:			
Pebble-lime	230,619	232,699	(2,080)
CO2	14,104	14,717	(613)
CL2	29,862	35,717	(5,855)
Fluoride	15,946	11,867	4,079
Poly-phosphate	7,120	6,716	404
Polymer	14,519	18,277	(3,758)
Lime sludge removal	246,756	267,076	(20,320)
Sodium chlorite	16,170	14,794	1,376
	<u>575,096</u>	<u>601,863</u>	<u>(26,767)</u>
Contract services:			
Rentals	60	191	(131)
Lab services	10,300	13,728	(3,428)
Grant	(324)	(10)	(314)
	<u>10,036</u>	<u>13,909</u>	<u>(3,873)</u>
Total treatment plant	<u>\$ 1,637,806</u>	<u>1,699,436</u>	<u>(61,630)</u>

MARSHALLTOWN WATER WORKS

Construction and Maintenance Expenses Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ <u>197,836</u>	<u>191,282</u>	<u>6,554</u>
Employee benefits:			
Health insurance	27,027	25,648	1,379
Pension	11,771	11,226	545
Social security	14,792	14,209	583
Life insurance	886	809	77
Registration	482	1,219	(737)
Operational fees and permits	9	-	9
Mileage	31	-	31
Dues	220	215	5
Food	62	11	51
Lodging	246	211	35
Medical	1,413	55	1,358
Safety clothing	1,082	1,006	76
Safety training	-	2,356	(2,356)
	<u>58,021</u>	<u>56,965</u>	<u>1,056</u>
Utilities:			
One call locate charges	<u>-</u>	<u>(305)</u>	<u>305</u>
Depreciation:			
Distribution depreciation	88,868	88,353	515
Booster station depreciation	2,681	2,681	-
Vehicle depreciation	3,292	5,992	(2,700)
Equipment depreciation	22,408	18,658	3,750
	<u>117,249</u>	<u>115,684</u>	<u>1,565</u>
Fuels:			
Gas	3,644	3,221	423
Oil	784	352	432
Grease	100	92	8
Diesel fuel	5,821	5,381	440
LP gas	24	-	24
	<u>10,373</u>	<u>9,046</u>	<u>1,327</u>

MARSHALLTOWN WATER WORKS

Construction and Maintenance Expenses (Continued) Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	9,239	11,156	(1,917)
Shop supplies	1,578	1,704	(126)
Leak repair supplies	21,366	21,726	(360)
Hydrant and valve supplies	2,915	3,526	(611)
Booster station supplies	25	270	(245)
Safety equipment	-	80	(80)
Data processing supplies	20	33	(13)
CIWA meter pit supplies	-	(190)	190
	<u>35,143</u>	<u>38,305</u>	<u>(3,162)</u>
Maintenance:			
Vehicle maintenance	419	2,076	(1,657)
Equipment maintenance	10,694	18,073	(7,379)
Computer maintenance	625	1,204	(579)
Safety equipment maintenance	-	82	(82)
Tower maintenance	-	640	(640)
Reservior maintenance	-	21	(21)
Well field maintenance	2,869	1,791	1,078
Booster station maintenance	2,733	329	2,404
CIWA meter pit repairs	-	(22)	22
	<u>17,340</u>	<u>24,194</u>	<u>(6,854)</u>
Total construction and maintenance	<u>\$ 435,962</u>	<u>435,171</u>	<u>791</u>

MARSHALLTOWN WATER WORKS

Customer Service and Meter Expense Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ 105,126	101,851	3,275
Employee benefits:			
Health insurance	12,102	14,866	(2,764)
Pension	6,396	6,068	328
Social security	7,760	7,547	213
Life insurance	454	391	63
Dues	38	125	(88)
Safety clothing	204	1,620	(1,416)
Safety training	-	2,356	(2,356)
Medical	179	228	(49)
	<u>27,133</u>	<u>33,201</u>	<u>(6,068)</u>
Depreciation:			
Vehicle depreciation	15,886	12,771	3,115
Meter depreciation	37,691	40,054	(2,363)
	<u>53,577</u>	<u>52,825</u>	<u>752</u>
Fuels:			
Gas	4,817	3,931	886
Oil	64	58	6
LP gas	24	22	2
	<u>4,905</u>	<u>4,011</u>	<u>894</u>
Maintenance:			
Vehicle maintenance	116	513	(397)
Equipment maintenance	534	1,495	(961)
Safety equipment maintenance	17	75	(58)
	<u>667</u>	<u>2,083</u>	<u>(1,416)</u>
Supplies:			
General supplies	2,412	1,654	758
Meter repair supplies	1,173	933	240
Shop supplies	766	866	(100)
Service repair supplies	37	-	37
Safety equipment	-	4	(4)
	<u>4,388</u>	<u>3,457</u>	<u>931</u>
Total customer service and meter expense	\$ <u>195,796</u>	<u>197,428</u>	<u>(1,632)</u>

MARSHALLTOWN WATER WORKS

Administrative and Non-Operating Expenses Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ <u>244,623</u>	<u>241,193</u>	<u>3,430</u>
Employee benefits:			
Health insurance	12,067	12,530	(463)
Pension	16,782	15,428	1,353
Social security	18,774	18,101	673
Life insurance	1,076	1,063	13
Mileage	4,028	2,954	1,074
Safety clothing	203	-	203
Registration fees	175	250	(75)
Dues and subscriptions	4,954	4,536	418
Lodging	416	235	181
Food	882	970	(88)
	<u>59,357</u>	<u>56,067</u>	<u>3,290</u>
Utilities:			
Electricity	8,155	10,142	(1,987)
Gas	5,216	4,972	244
Internet expense	220	-	220
Telephone	5,512	5,461	51
Postage	-	(80)	80
Public notices	-	(4,724)	4,724
	<u>19,103</u>	<u>15,771</u>	<u>3,332</u>
Depreciation:			
Building depreciation	15,691	16,954	(1,263)
Capital improvement depreciation	2,467	-	2,467
Equipment depreciation	28,394	41,367	(12,973)
	<u>46,552</u>	<u>58,321</u>	<u>(11,769)</u>
General supplies:			
Office supplies	3,116	2,807	309
Data processing supplies	3,367	2,554	813
General supplies	2,155	3,327	(1,172)
Operation fees and permits	4,344	5,794	(1,450)
Health and first aid	784	588	196
	<u>13,766</u>	<u>15,070</u>	<u>(1,304)</u>

MARSHALLTOWN WATER WORKS

Administrative and Non-Operating Expenses (Continued) Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	7,419	31,879	(24,460)
Office machine maintenance	3,678	(448)	4,126
Building maintenance	755	3,154	(2,399)
Grounds maintenance	-	2,017	(2,017)
Heating and air conditioner maintenance	-	3,123	(3,123)
	<u>11,852</u>	<u>39,725</u>	<u>(27,873)</u>
Administrative expenses:			
Insurance	77,125	71,685	5,440
Bad debt expense	(124)	(48)	(76)
Banking services	3,754	3,328	426
Legal services	12,446	1,557	10,889
Cleaning services	5,438	5,057	381
Accounting services	6,480	7,912	(1,432)
Postage	19,997	18,324	1,673
Public notices	3,311	12,537	(9,226)
Contract services	1,432	1,824	(392)
Computer programming	80	-	80
	<u>129,939</u>	<u>122,176</u>	<u>7,763</u>
Total administrative expenses	<u>\$ 525,192</u>	<u>548,323</u>	<u>(23,131)</u>
Non-operating expenses:			
Interest expense	\$ 28,228	41,098	(12,870)
Board compensation	675	900	(225)
Contributions	75	-	75
Returned checks	-	428	(428)
Economic development	8,000	10,500	(2,500)
Total non-operating expenses	<u>\$ 36,978</u>	<u>52,926</u>	<u>(15,948)</u>

MARSHALLTOWN WATER WORKS

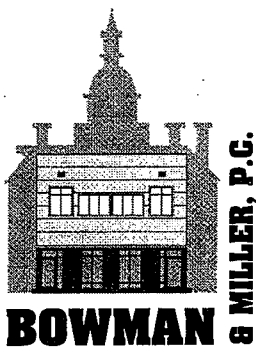
Summary of Indebtedness

Year Ended June 30, 2007

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 710,000
Issued during year	-
Redeemed during year	<u>345,000</u>
Balance, end of year	\$ <u>365,000</u>
Current portion (due in one year)	\$ <u>365,000</u>

Year Ended June 30, 2006

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 1,040,000
Issued during year	-
Redeemed during year	<u>330,000</u>
Balance, end of year	\$ <u>710,000</u>
Current portion (due in one year)	\$ <u>345,000</u>



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on
Internal Control over Financial Reporting
and on Compliance and Other Matters Based on Audits
of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Marshalltown Water Works
Marshalltown, Iowa

We have audited the financial statements of the Marshalltown Water Works, as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 18, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Marshalltown Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Marshalltown Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marshalltown Water Works' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the Marshalltown Water Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Marshalltown Water Works' financial statements that is more than inconsequential will not be prevented or detected by the Marshalltown Water Works' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2007 and 2006 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Marshalltown Water Works and other parties to whom the Marshalltown Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Marshalltown Water Works during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 18, 2007

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2007 and 2006

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Other Findings Related to Required Statutory Reporting:

- 07-II-A Certified Budget - Expenditures during the years ended June 30, 2007 and 2006, did not exceed the amounts budgeted.
- 07-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 07-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 07-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 07-II-E Bond Coverage - Security bond coverage of Water Works officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 07-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.
- 07-II-H Revenue Bonds - The Water Works has established the sinking and reserve accounts required by the water revenue bond resolution.

MARSHALLTOWN WATER WORKS

Audit Staff

This report was prepared by:

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Personnel:

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